



Remarks Prepared For Delivery

The Hon. Jovita Carranza  
Deputy Administrator  
U.S. Small Business Administration

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**ROUNDTABLE DISCUSSION ON SMALL BUSINESS TAX  
ISSUES**

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It's great to be here with all of you today. I'd like to start by thanking you for joining us for a discussion on one of the most important policies that face small business today: taxes.

When we, as leaders in the federal government, consider major issues, we need to consider the impact on the firms that:

- Employ half of the private sector workforce;
- Create 2/3 of the new jobs
- Account for half of non-farm GDP;
- Generate nearly 30 percent of our country's exports
- And are leading incubators of innovation, which keeps America competitive.

I'm talking, of course, about small businesses. We need to ensure the right environment for small business – an environment that encourages people to take risks, and encourages investment, growth, and development.

A major way to accomplish that is through fiscally sound tax policy. In order to make more dollars available for investment, for sales expansion, and for employee benefits, the tax burden small businesses face needs to be permanently reduced. Let's talk about some specific policies to make that happen.

First, we need to recognize that most small business owners pay taxes on their business income at the individual tax rate. This is because more than

90 percent of business tax returns were filed as S corporations, partnerships, and non-farm sole proprietorships. And for the most part, income earned from these businesses is taxed as personal income.

All of this means that the personal income tax rate is very important to small business owners. And it also means that we need to make permanent the reduced marginal individual income tax rates, as well, in order to free up more dollars for investment.

The President's tax relief clearly helped small businesses by reducing the marginal income tax rates, but his tax reforms are set to expire at the end of 2010. If Congress fails to act to extend the tax relief, millions of American small businesses will face a higher tax burden.

Small business owners will pay more than \$4,000 more on average in federal income tax. This is real money that would be put to better use investing in the business.

And higher marginal tax rates reduce the incentive to work hard and earn more. We've seen major studies that show that taxable income is actually fairly elastic, and that when tax rates increase, taxable income is likely to decrease.

Second, the reduction in the capital gains tax that President Bush delivered in 2003 needs to be made permanent. Taxes on capital gains discourage investment because they reduce the potential return on investment, which

in turn lowers the incentive to take that risk in the first place. Small businesses depend on capital to grow, and so it's imperative that we do all we can to incentivize investment across the country.

By allowing the President's tax cuts to expire, Congress will raise the maximum tax rate on dividends to 39.6 percent, and the top tax rate on capital gains from 15 percent to 20 percent.

The subsequent hit to the economy would be around \$44 billion, according to one estimate, and a loss of some 270,000 jobs. And those jobs would come first from the those most sensitive to marginal drops in investment returns and cash flow: small businesses.

The President's economic policies afford small businesses two other important tax benefits. For one, the limit on qualifying assets that can be expensed in 2008 has been doubled. This means that any asset purchased and kept in service during the 2008 tax year can be expensed up to \$250,000. The other is that small businesses can write off 50 percent of the purchase price of qualifying property purchased and placed in service in 2008. And on top of this, small firms can take the regular depreciation on the remaining event. Both of these provisions provide major benefits for small businesses, and were included in the Economic Stimulus Act.

Finally, small businesses need help to deal with the estate tax. This year, estates, which include small businesses, that are valued over \$2 million that change hands will face a tax between 20 and 45 percent. The estate tax

in 2006 cost businesses almost \$27 billion, which would have been better used to grow the business. For some family businesses, the estate tax can be so burdensome that heirs would be forced to sell the business just to pay the tax. This is destructive, and it discourages small business owners from creating a strong company to pass to their children.

In 2011, nearly 50,000 businesses will be affected by the estate tax. By one estimate, 170,000 to 250,000 jobs each year could be created if the estate tax didn't discourage expanding a family business in order to pass it on to future family members. But even this cost does not reflect the full cost of the estate tax. It is estimated that four times as many small businesses will file estate tax returns than will be liable for any payment, representing time or legal payments wasted filing the forms. This does not even include the time and money spent on estate planning to reduce or eliminate the amount of tax liability, or the families that found ways to eliminate the liability entirely.

If Congress fails to act, this burdensome tax will return in force.

There's another problem as well if Congress fails to make the tax cuts permanent. The tax hikes that will come with the expiration of the President's tax cuts will cost taxpayers \$280 billion per year. This is real money that consumers will not have and will not be able to spend. Small

businesses may find themselves dealing with a reduction in consumer spending as a result.

After 52 consecutive months of job growth and strong economic results, our economy and financial markets are going through a rough spot.

The current conditions make enacting the right policies all the more important. We need to lift our line of sight to the longer-term underpinnings of a robust economy. And this means enacting policies that create an environment where small businesses can grow and succeed. And getting tax policy right is an integral part of accomplishing this.

I appreciate the opportunity to present some important policies that will help reduce the tax burden on small businesses. I hope to hear what some of you, as small business owners, have to say about this issue.